

Forward Thinking

Subscribe to our blog for news, articles and other information about personal finance topics, insights and perspectives from Tangerine, our culture and community work.



Decisions, decisions: Used car, new car or lease?



Subscribe

Friday, January 22nd, 2016 | Helen Burnett-Nichols | Spending Articles

Tags: Featured Money

So you're ready to buy a new (to you) car.

A list of important decisions awaits — new or used? Make and model? Colour? CD player or MP3 compatibility? Manual or automatic?

Depending on how you intend to use the car, taking the time to break down the real price of a brand new or previously enjoyed vehicle can mean a lot to your bank account over time.

Here's a look at some of the underlying costs of buying new and used, and a few hints on how to look for the best deal on either option:

The advantages of buying new

Warranty: Often, drivers are drawn to new cars by the latest technology and safety features, says Radek Garbowski, chief operating officer at Unhaggle.com, a website aimed at helping consumers with the car-buying process. However, another big selling point is the low cost of maintenance.

The majority of manufacturers offer bumper-to-bumper warranties spanning the first few years of the car's life or a certain number of kilometres, covering most repairs, parts and labour.

Deals: New-car shoppers can often take advantage of offers like employee pricing, 0% financing, and various other incentives from dealers, often during the latter half of the year, when the new models are rolling in.

Fariha Naqvi-Mohamed, a Montreal-based Chevrolet ambassador who blogs at CanadianMomEh.com, scored an "unheard of" deal late last year, when she leased a vehicle during a rare Black Friday sale open to the general public and bought a second, slightly older, vehicle for \$1.



"That's a very exaggerated example of a deal you might find towards the end of the year, but in my case, it actually happened, and I took advantage of it," Naqvi-Mohamed says.

Leasing vs. financing: Of course, for anyone not paying for a new car in cash, the debate over whether to lease or finance a new vehicle will also come into play.

Leasing usually comes with a lower monthly payment, says Garbowski, but the consumer never owns the vehicle. This option is often chosen by individuals who want a new vehicle every three or four years.

Leased vehicles also come with yearly mileage restrictions, which may not be high enough for drivers who have a long daily commute, for example. As Toyota Canada explains on its website, one of the downsides of leasing is the fact that excess kilometre and wear and tear charges may apply.

For Naqvi-Mohamed's family, leasing a new car made the most financial sense, since they were already financing another vehicle. Lease payments, she adds, can also be included as a tax write-off for those in certain professions.

Financing allows the driver to make payments and eventually own the vehicle at the end of the term.

Currently, Garbowski says financing rates are lower, on average, on new vehicles than used vehicles.

Other considerations:

Extra administration fees: Some dealers, says Garbowski, are known for tacking on extra administration fees for things like window security etching, which, he says, "probably don't provide as much value to the consumer as they let on."

Depreciation: The well-known saying "as soon as a vehicle drives off the lot, it loses value" is true, says Garbowski. The largest hit to the value of the car usually occurs within the first two to three years.

The advantages of buying used

Lower initial cost: As they are often older models and usually sold privately, used cars generally come at a lower cost to the buyer. Some dealers, says Garbowski, also offer certified pre-owned vehicles, which may cost slightly more than those sold privately, but may also come with an extended warranty from the manufacturer.

Favourable insurance rates: Overall, says Garbowski, insurance on used cars tends to be a bit less expensive because of their lower value, although rates are ultimately determined based on where a driver lives, their driving history and the type of vehicle. Be sure to get a quote before buying.

Other considerations:

As the CAA notes, running costs can be a big consideration with used cars — not only payments, but also repairs, maintenance and insurance. The purchase of a used car may also cost you extra in terms of mechanical inspection fees, extended warranties, paint and rustproofing.

Ultimately, says Naqvi-Mohamed, there's no hard and fast rule when it comes to deciding whether new or used is a better option for you. It will always come down to factors like a driver's budget and needs.

"You have to figure out, 'What can I comfortably spend each month?' It's a commitment, right? You have to make sure you can afford it."

CAA is a trademark of the Canadian Automobile Association

Toyota Canada is a trademark of Toyota Canada Inc.



Learn about Tangerine's options for spending that put you in charge.



Spend and save at the same time. The Tangerine Money-Back Credit Card is here!

About Helen Burnett-Nichols



Helen Burnett-Nichols is a freelance writer based in Hamilton, Ont. She specializes in news and feature articles on a variety of business, legal and investment topics. Follow her on Twitter @helenbnichols.

Source: <https://www.tangerine.ca/forwardthinking/spending/decisions-decisions-used-car-new-car-or-lease>

Subscribe